

C 20017

(Pages : 4)

Name.....

Reg. No.....

SIXTH SEMESTER U.G. DEGREE EXAMINATION, MARCH 2022

(CUCBCSS—UG)

B.Com.

BCM 6B 15—FINANCE SPECIALIZATION IV : FINANCIAL MANAGEMENT

(2017 and 2018 Admissions)

Time : Three Hours

Maximum : 80 Marks

Part A*Answer all questions.**Each question carries 1 mark.*

(A) Choose the Correct Answer :

- 1 The primary goal of the financial management is _____.
 - a) To maximize the return.
 - b) To maximize the profit.
 - c) To maximize the wealth of the owners.
 - d) To minimize the risk.
- 2 The valuation of a financial asset is based on determining :
 - a) The present value of future cash flows.
 - b) The current yield to maturity on long term corporate bonds.
 - c) The capital budgeting process.
 - d) What the corporation is paying to attract preferred shareholders.
- 3 According to traditional approach, average cost of capital _____.
 - a) Remains constant up to a degree of leverage and rises sharply thereafter with every increase in leverage.
 - b) Rises constantly with increase in leverage.
 - c) Decreases up to a certain point, remains unchanged for moderate increase in leverage and rises beyond a certain point.
 - d) Decreases at an increasing rate with increase in leverage.
- 4 Which of the following is the first step in capital budgeting process ?
 - a) Approval of the proposal.
 - b) Screening the proposal.
 - c) Implementing the proposal.
 - d) Identification of investment proposal.

Turn over

5 The term _____ refers to the period in which the project will generate the necessary cash flow to recoup the initial investment.

- a) Internal return. b) Payback Period.
c) Discounting return. d) Accounting Return.

(B) Fill in the blanks :

6 A project costs Rs. 1,00,000 annual cash flow of Rs. 20,000 for 8 years. Its payback period is _____ years.

7 _____ is called as Dividend Ratio Method.

8 The mix of debt and equity in a firm is referred to as the firm's _____.

9 Net working capital refers to _____.

10 Operating Leverage X Financial Leverage = _____.

(10 × 1 = 10 marks)

Part B (Short Answer Questions)

*Answer any **eight** questions.*

Each question carries 2 marks.

11 What are the objectives of financial management ?

12 Define cost of capital.

13 Write any *two* advantages of leverage.

14 Define capital structure.

15 Define cash management.

16 What is the concept of "Time Value of Money" ?

17 Distinguish between systematic risk and unsystematic risk.

18 Calculate the NPV for a project which required an initial investment of Rs. 20,000 and which involves a net cash inflow of Rs. 6,000 each year for 6 years. Cost of funds is 8 percent. (Present value of Annuity of One Rupee at 8 percent discount factor for 6 years = 4.623).

19 A company purchases a component of a product at the rate of Rs. 50 per piece. The annual consumption of that component is 25,000 pieces, if the ordering cost is Rs. 230 per order and carrying cost is 20 percent per annum, what would be the EOQ ?

20 What is dividend payout ratio ?

(8 × 2 = 16 marks)

Part C

*Answer any six questions.
Each question carries 4 marks.*

- 21 Explain the different types of dividend.
- 22 What are the stages of capital budgeting process ?
- 23 Explain various inventory control techniques.
- 24 What are the assumptions of Walter's model ?
- 25 There are two projects A and B. Each involves an investment of Rs. 50,000. The expected cash inflows and the certainly co-efficient are as under :

Year	Project A		Project B	
	Cash inflows	Certainly Co-efficient	Cash inflows	Certainly Co-efficient
1	35,000	.8	25,000	.9
2	30,000	.7	35,000	.8
3	20,000	.9	20,000	.7

Risk-free cutoff rate is 10 %. Suggest which of the two projects should be preferred.

- 26 Simplified Income statement of Z Ltd. is given below. Calculate and interpret its degree of operating leverage, financial leverage and combined leverage :

Sales	...	10,50,000
Variable Cost	...	7,67,000
Fixed Cost	...	75,000
EBIT	...	2,08,000
Interest	...	1,10,000
Taxes (30%)	...	29,400
Net Income	...	68,600

- 27 ABC Ltd. issues 20,000, 8 % preference shares of Rs. 100 each. Redeemable after 8 years at a premium of 10 %. The cost of issue is Rs. 2 per share. Calculate the cost of preference share capital.

Turn over

- 28 Prepare an estimate of working capital requirement from the following information of a trading concerns :

Projected annual sales 10,000 units Selling price Rs. 10 per unit

Percentage of net profit on sales 20 %

Average credit period allowed to customers 8 Weeks

Average credit period allowed by suppliers 4 Weeks

Average stock holding in terms of sales requirements 12 Weeks

Allow 10 % for contingencies

(6 × 4 = 24 marks)

Part D

Answer any **two** questions.

Each question carries 15 marks.

- 29 Explain Finance Function, approaches to Finance Function and the relationship of Finance Function with other Business Function.
- 30 A company has on its books the following amounts and specific costs of each type of capital :

Type of Capital	Book Value	Market value	Specific Cost
Debt	4,00,000	3,80,000	5
Preference	1,00,000	1,10,000	8
Equity	6,00,000	9,00,000	15
Retained Earnings	2,00,000	3,00,000	13
Total	13,00,000	16,90,000	

Determine the weighted average cost of capital using :

- (a) Book value weights, and
(b) Market value weights.

How are they different ? Can you think of a situation where the weighted average cost of capital would be the same using either of the weights ?

- 31 The following information relates to XYZ Ltd:

Paid-up capital	...	Rs. 20,00,000
Earnings of the company	...	Rs. 2,00,000
Dividend paid	...	Rs. 1,60,000
Price earnings ratio	...	12.5
Number of shares outstanding	...	20,000

You are required to find out the whether the company's dividend pay out ratio is optimal using Walter's model.

(2 × 15 = 30 marks)